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Title: ²⁴⁵ THE CHINESE CONNECTION: U.S. AGRICULTURAL TRADE ⁴

BACKGROUND ON CHINESE AGRICULTURE

China has a highly labor-intensive form of agriculture. When the People's Republic of China was born 1949, the Chinese began working to make the country's agriculture more efficient and productive.

By 1958, the Chinese organized agricultural production into the commune system, with the commune containing about several thousand households, and its production teams, each containing about 20-40 households.

The commune continues today as an administrative unit but most production decisions are the responsibility of the production team. Individuals make production decisions only for the private plots they cultivate.

Chinese farmers today also use small-scale, semi-mechanized agricultural equipment and chemical fertilizers to supplement organic ones.

Because of severe production shortfalls in 1960-61, the Chinese sought to insulate their agriculture from drought and other severe weather conditions by terracing fields, constructing wells, irrigating and reclaiming land.

Although China's principal crop is rice, farmers there also produce many other crops including wheat, corn, soybeans, peanuts, cotton, tobacco and hogs. The Chinese produced an estimated 295 million metric tons of grain--125 of it rice--and 290 million hogs--their main meat animal--in 1978.

That same year, the U.S. produced 273 million metric tons of grain and about 75 million hogs.

In general, China's agricultural growth has outpaced its population growth. However, the Chinese still import grain. There are two reasons: distribution and procurement problems and a wish to diversify their diet.

Distribution and procurement problems inhibit the government's ability to move grain from the countryside to urban areas.

Also, China's basic transportation framework is elementary, so it is often cheaper to import grain for the large coastal urban centers than to move it in from the countryside.

To diversify the Chinese diet, farmers must boost swine and poultry production. To do this, they will need to import feed grains. Both considerations were factors in boosting China's annual grain imports to over nine million tons in 1978.

DECISION TO MODERNIZE

The Chinese plan more modernization for their agriculture--including more mechanization and use of more chemicals. During Secretary of Agriculture Bob Bergland's visit to China in November 1978, the Chinese expressed interest in:

- Agricultural machinery and production technology, including building entire plants to produce machinery for mechanized livestock production and irrigation.

- Complete equipment for drying, selecting, grading, packaging and testing seeds.

- Agricultural chemicals, including pesticides for cotton, wheat, rice, soybeans, corn and fruit trees, plant growth regulators and herbicides for weeds in rice, cotton, corn and soybeans.

- Complete equipment for premixed feed, bulk feed transportation trucks, pellet extruder machines, computers for computing feedstuff formulas, alfalfa dehydrating equipment and equipment to produce feedstuff additives.

- Plastics for agriculture and food processing, such as polyethylene sheets, pipes for sprinkling and drip irrigation and plastics for fisheries and food packaging.

- Complete food processing equipment for automated production lines for canned goods, beverages and bread.

A U.S. market development team, visiting China in March 1979, agreed to exchange technical delegations in seeds and grassland management, baking, feed processing, laboratory equipment and animal husbandry. Team members said the Chinese want to work closely with cooperator groups to modernize their agriculture.

The Chinese are considering cooperative fruit and livestock proposals in addition to agreements they have already reached.

By modernizing these areas, the Chinese can diversify their diet, while reaching an output of 400 million tons of grain by 1985. Most observers believe this target is the maximum level the Chinese

could produce by 1985. Based on the historical rate of growth, a figure of 350 million tons of grain is more likely, observers say.

TECHNICAL AND OTHER EXCHANGES

The United States and China have signed an agreement on cooperation in science and technology and have reached an understanding on agricultural exchanges. During his visit to China, Secretary of Agriculture Bob Bergland agreed to promote cooperation in agricultural technology, economic information, and science and education.

Groups had previously been exchanged under the auspices of the National Academy of Sciences in science and research, farm machinery, citrus fruits, wheat and vegetables. A Chinese seed delegation visited the U.S. during March and the U.S. cooperator team, representing livestock, feedgrain, soybean, fruit, seed and wheat cooperators visited, China also during March.

A scientific exchange on biological control of pests has been proposed, with the U.S. team visiting China in July and a Chinese team visiting the U.S. in August. A scientific exchange on animal health has also been proposed, with the Chinese team visiting the U.S. in June and the U.S. team visiting China in August or September.

An exchange of plant breeding materials teams is proposed, with the Chinese team scheduled to visit the U.S. in June and the U.S. team scheduled for August of this year. Other areas under consideration include exchanges in economic analysis and statistics, agricultural education and scientific equipment for agricultural research.

The countries have agreed that within the next two or three years they will carry out cooperation in forestry, agricultural engineering, grassland improvement, pasture management, fruit tree cultivation, medicinal plants and the application of remote sensing and computer technology to agriculture. Those exchanges would also involve mutual visits and cooperative research of U.S. and Chinese scientists and technicians.

AGRICULTURE-RELATED TRADE

During 1978, Chinese trade policy began to focus more heavily on imports of agricultural commodities and technologies. Since then, China has become an important market for U.S. farm products. China's goal of modernizing its agriculture is expected to affect marketing prospects of U.S. agriculture and related industries.

Sales of U.S. farm products to China are relatively well established. The Chinese have indicated they will be a regular

buyer of U.S. grain. In the marketing year beginning April 1978, when sales of grain to China resumed, the Chinese bought 7.1 million metric tons of U.S. grain, including about 4.1 million of wheat and 3.0 million of corn. Of the estimated 10 to 13 million metric tons of grain expected to be imported annually by the Chinese during the next few years, the U.S. is expected to supply about half.

China's import needs may be higher if there are production shortfalls. There may also be excess demand caused by increasing efforts to diversify diets. The latter may have an impact on U.S. exports of corn and other feed grains. The U.S. should continue as a major supplier of cotton to China and sales of soybeans and products are expected. A potential market exists for other agricultural commodities, such as tallow, hides and skins.

Exports to China of U.S. agribusiness products and technologies are in developmental stages. Of the five leading U.S. exports to China, four are agricultural commodities. U.S. agribusiness products were only 5 percent of 1978 U.S. exports to China. Leading U.S. agribusiness exports, in their order of value, include fertilizers, fungicides, herbicides, tractors and tractor parts, insecticides and miscellaneous agricultural machinery.

While these exports in 1978 amounted to less than \$40 million, there is good potential for expansion. The Chinese intend to import plants and equipment for agricultural machinery and chemicals and are currently a major importer of chemical fertilizer.

China's exports of agricultural commodities are an important means of obtaining the hard currency necessary for its purchases of agricultural technologies and commodities. China exports certain agribusiness products, such as 2-5 horsepower tractors and other small scale agricultural machinery but these constitute a small proportion of its total agriculture related exports.

Rice, fruits and vegetables and livestock and products have been leading Chinese agricultural exports. China's exports of fruits and vegetables totaled \$500 million in 1977, and its exports of live animals, meat and meat products, fish and fish products totaled over \$700 million.

Rice exports, valued at nearly \$1 billion in 1974, were down to \$215 million in 1977 before turning upward to more than \$350 million in 1978. Other major agricultural exports include silk, tea, tobacco, peanuts and eggs.

These export figures are partly estimates, because there are no firm statistics on China's total agricultural trade. One objective in the developing cooperation between the U.S. and China is to set up an exchange system for agricultural economic information that will provide the data they have been lacking.

U.S. agricultural imports from China have been moderate, totaling \$84 million in 1978. In 1978, the major ones included, in order of value: feathers and down (\$25.1 million), bristles \$6.9 million), cashews (\$6.5 million), tea (\$4.8 million), cassia oil (\$4.6 million), raw silk (\$4.5 million), cashmere (\$3.0 million), gelatin (\$3.1 million), tung oil (\$2.9 million), licorice root (\$3.5 million) and cocoa (\$1.6 million).

In all likelihood, China will attempt to expand agricultural exports across the board to earn additional money for its large-scale modernization plan. However, the expansion may not reflect the current structure of U.S. agricultural imports from China.

Specifically, China lacks most favored nation (MFN) status, which would give its products access to the U.S. market equal to that of most other nations and this probably has influenced the types of agricultural commodities it has exported to the United States.

OBSTACLES TO EXPORT GROWTH

While there is good potential for expanding U.S. agricultural trade with China, the prospect for significant expansion is long term. There is a tendency for exporters to assume the Chinese will buy whatever product exporters have to sell, so that it is only necessary to multiply by a billion consumers and count the the profits.

It is true the Chinese constitute a significant buying potential as a whole but on a per capita basis they do not. Moreover, the U.S. is not selling in a vacuum. There is intense competition from Japan, Europe, Australia and Canada.

Additional potential obstacles to trade include problems of MFN status and intermediate and long term credits. China will be able to obtain MFN status only if either Congress changes the Jackson-Vanik Amendment or the President waives Jackson-Vanik for China. Until then, bilateral trade with the U.S. is at a competitive disadvantage compared with other Chinese bilateral trade arrangements. This tends to put a limit on what China can export at a competitive price and may indirectly influence what it is willing and able to import from the U.S.

China is eligible for Commodity Credit Corporation (CCC) export credit but has not asked for it. Moreover, China's credit needs are well in excess of available CCC funds and also relate to financing of projects the CCC does not deal with. During the next several years, China may contract out many of these projects with foreign investors.

U.S. planners estimate China's hard currency holdings at about \$2 billion but they expect the Chinese will need an extension of several billion dollars credit.

Foreign willingness to extend credit may be less than what China needs for its modernization scheme. In that event, China's level of investment and its level of imports would be constrained. However, China is considered very credit-worthy and has recently obtained some of the financing necessary for these projects.

STATUS OF TAIWAN

Normal relations with the People's Republic of China should not affect U.S. commercial relations with Taiwan. Relations with private business firms continue to develop. The American Institute in Taiwan--the new agency that conducts unofficial U.S.-Taiwan relations--will carry on the kind of economic, cultural and other activities that had previously been handled by the American embassy.

Congress recently approved the "Declaration of Policy with Regard to Taiwan," which states that it is U.S. policy to "preserve and promote extensive, close, friendly, commercial, cultural, and other relations" between the U.S. and Taiwan and that relations between the U.S. and China rest on the expectation that "the future of Taiwan will be determined by peaceful means."

Aside from these legal provisions, there are economic precedents which show that full and normal relations with China need not affect U.S. relations with Taiwan. For example, Japan's trade with Taiwan increased by more than 233 percent since Japan developed normal relations with China, Australia's by 370 percent and Canada's by 539 percent. U.S. farm exports to Taiwan totaled \$825 million in 1978 and are expected to reach \$1 billion or more in 1979.

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